

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS WHITEMAN TO
PUBLIC REPRESENTATIVE INTERROGATORIES
PR/USPS-T12-1-7**

The United States Postal Service hereby provides the responses of witness Whiteman to the above-listed interrogatories of the Public Representative, dated January 5, 2011. The Public Representative brought the fact that these responses had not previously been filed to counsel's attention today. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
WHITEMAN TO PR INTERROGATORY,

PR/USPS-T12-1. Please refer to page 6 lines 16-19 of your testimony, where you mention that participants accepted the proposed service standards changes after hearing the reasons for them. Is it your opinion that most consumers of First-Class Mail were, prior to being informed, unaware of the reasons behind the Postal Services proposed changes?

RESPONSE:

It is not my “opinion that most consumers of First-Class Mail were, prior to being informed, unaware of the reasons behind the Postal Services proposed changes”. During the focus groups, it was clear that many customers had heard a lot about the challenges facing the Postal Services, including major operating deficits, defaulting on our pre-payment requirement, the possibility of running out of cash, downsizing the number of employees, and implementing Five-Day Delivery.

However, in order to ensure that all customers in the focus groups could discuss the impact of changing the service standards for First-Class Mail and Periodicals mail with the same understanding, the moderator read the description of the proposed changes and the reasons for it. See Appendix D and Appendix E in USPS-T-11.

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WHITEMAN TO PR INTERROGATORY,

PR/USPS-T12-2. Please refer to page 8 lines 1-4 of your testimony, which states “it is important to recognize that when respondents are asked to estimate their responses to proposed changes...they tend to overstate their reactions for several reasons...”

- a. Please provide a source apart from new product testing and the overstated “propensity to buy” for the reasons provided.
- b. Please provide a reference linking the use of the likelihood scale with product deletion or service diminution.

RESPONSE:

a. The reasons I discuss on page 8 for why respondents tend to overstate their intentions to buy or to modify their mailing volumes are understood widely throughout the marketing and market research functions. As a practitioner of both, this has been a consistent attribute of market research commonly discussed when considering changes to products or channels.

In an article published in April 2000 by J. Scott Armstrong (The Wharton School, University of Pennsylvania), Vicki G. Morwitz (Stern School of Business, NYU) and V. Kumar (University of Houston), titled *Sales Forecasts for Existing Consumer Products and Services: Do Purchase Intentions Contribute to Accuracy*¹, there is a relevant discussion of this issue on page 11. It is important to note that the products these authors were assessing consisted of existing products, not new ones.

Morrison (1979) developed a descriptive model of the relationship between purchase intentions and subsequent purchasing. Morrison proposed that there

¹ J. Scott Armstrong, Vicki G. Morwitz, V. Kumar, Sales Forecast for Existing Consumer Products and Services: Do Purchase Intentions Contribute to Accuracy, International Journal of Forecasting, Volume 16, 2000, pp. 383-397.

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are three threats to the predictive validity of purchase intention measures. First, intentions are measured with error. Second, respondents' purchase intentions might change over time because of exogenous events (e.g., current car breaks down, sudden rise in income). Third, average stated purchase intentions might be a biased estimate of the proportion that actually buy the product because of systematic error (e.g., response style biases, promotional effects, changes in the economy, as noted in Kalwani and Silk 1982).

While these authors identify different reasons for “threats to the predictive validity” of respondents’ estimates, they consistently address the observation that factors prevent respondents from providing estimates that later equal their actual “in-market” response when the time comes.

b. As has frequently been acknowledged, a common approach used to estimate the increases and decreases in usage of existing products and services is the Juster scale. The accuracy of purchase intention/ probability scales (e.g., the Juster scale) for existing products has been documented for example in Clawson (1971)² for existing frequently purchased services (savings, investments, recreation, and travel), in Dawes (2001)³ for existing bill payment methods in Australia (e.g., payment at post office, payment by telephone,

² Clawson, C. Joseph (1971), “How Useful Are 90-Day Purchase Probabilities?” Journal of Marketing Vol. 35, No. 4 (Oct., 1971), pp. 43-47.

³ Dawes J (2002). Further evidence on the predictive accuracy of the verbal probability scale: The case of household bill payments in Australia. Journal of Financial Services Marketing, 6, 3, 281-289.

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payment by mail), existing branded products and packaged goods in Kalwani and Silk⁴ (1982), and existing durable products in Juster (1966).⁵ As such, it is standard in the literature to employ the Juster scale in forecasting usage of existing products and services.

Also note that the scale accommodates over-estimation of both increases and decreases in product and service usage. The scale ranges from “No chance/Almost no chance (1 in 100 chances)” up to “Certain/Practically Certain (99 in 100 chances).” Decreases in service usage would appear as lower scores on the scale, as less probable usage. Reflecting that purchase intention scales can be used to estimate increases or decreases in service usage as well as their applicability to existing categories, Morwitz (1997) stated “Consumers with previous experience should have more accurate predictions of whether or not they will engage in the behavior in the future than other consumers.” (Morwitz 1997, p. 58).⁶ Note the generality of the wording “behavior;” consumer intentions are not restricted to increases (or decreases) in product purchases but rather are applicable to behavior in general (Fishbein and Ajzen 1975).⁷

⁴ Kalwani, M.U. & Silk, A.J. (1982). On the Reliability and Predictive Validity of Purchase Intention Measures, *Marketing Science*, 1, 243-286.

⁵ Juster, F. Thomas (1966) “Consumer Buying Intentions and Purchase Probability: An Experiment in Survey Design,” *Journal of the American Statistical Association*, Vol. 61, No. 315, (Sep), pp.658-696.

⁶ Morwitz, (1997), “Why Consumers Don’t Always Accurately Predict Their Own Future Behavior,” *Marketing Letters*, p.58.

⁷ M Fishbein and I. Ajzen, *Belief, Attitude, Intention, and Behavior; an Introduction to Theory and Research*, Reading, Mass, Addison-Wesley.

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PR/USPS-T12-3. Please refer to page 8 of your testimony, which states “the qualitative market research clearly demonstrates that both consumers and commercial organizations will be able to adapt to the changes in the service standards for First-Class Mail, and most would prefer the changes in the service standards to significant price increases.”

- a. Please elaborate on the qualitative market research and indicate if participants were given the option to choose between a change in service standards or price increase.
- b. If so, please identify the library reference or description of methodology containing this choice.

RESPONSE:

a. The qualitative process is described by witness Elmore-Yalch on pages 6-20 of her testimony, USPS-T-11. The focus group moderators and the in-depth interviewers read a brief description of the proposed changes in service standards for First-Class Mail and reasons for the proposed changes. The description used in the focus groups and the in-depth interviews with consumers and small businesses can be found on pages 82-83 in witness Elmore-Yalch’s testimony. The description used in the in-depth interviews with larger commercial customers can be found on pages 87-88 of witness Elmore-Yalch’s testimony.

In neither the focus groups nor the in-depth interviews did we give the customers “the option to choose between a change in service standards or price increase.” However, many customers on their own clearly indicated that making such changes was preferable to raising prices.

- b. N/A

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PR/USPS-T12-4. Please refer to page 13 lines 4-5 of your testimony where you assert, “when presented with a simple choice, whether the Postal Service should adopt the proposed change or not, approximately 80 percent of the consumers and small commercial customers indicated the Postal Service should adopt it.” Were participants given any other options, apart from those referenced in the response to question PR/USPS-T-12-4?

RESPONSE:

See my response to PR/USPS-T-12-4. Customers were not given other options.

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PR/USPS-T12-5. Please refer to page 9 lines 11-12 of your testimony, where you state "...focus groups and personal interviews allow us to gain a deep understanding of how customers will react."

- a. Please indicate any differences in the ways the Postal Service is using the qualitative market research compared to the N2010-1 six to five day proposal.
- b. How, if at all, did findings from the qualitative research impact the proposed service changes in this case?
- c. Do you contend consumer knowledge of service standards correlates to consumer "adaptability" mentioned on page 11, lines 17-22 of your testimony?

RESPONSE:

- a. Overall, the qualitative approach was very similar to the approach we used in the research to assess the impact of implementing Five Day Delivery. The major differences were that we (1) added in-depth interviews with consumers and small businesses in Alaska and Hawaii, (2) held groups in a very rural area, Pocatello ID, and (3) did not include in the discussion a trade-off of implementing the service standard changes vs. a price increase.
- b. Given that the qualitative research demonstrated to us 1) that customers will accept the changes with the understanding that it is necessary for long term Postal Service financial stability, 2) that the service standard changes would have a limited impact on customers' mailing behaviors, and 3) that customers would be able to easily adapt to the changes, we were able to conclude that it was reasonable for the Postal Service to proceed forward in its consideration of implementing the proposed service standards changes.

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c. Nowhere in my testimony did I state that “consumer knowledge of service standards correlates to consumer ‘adaptability’.” In fact, I do not know what is meant by this question. What I stated was the following (page 11 of USPS-T-12):

The adaptability of consumers and small commercial organizations to changes in service standards for First-Class Mail™ reflects their general lack of awareness of current standards and their perceptions that First-Class Mail takes longer than the current service standards or actual service performance reflect.

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PR/USPS-T12-6. Please refer to page 8 lines 14-16 of your testimony, where you stipulate market research “compresses all estimates of change to a single point in time, when, in reality, the estimated change may take effect over a much longer period of time.”

- a. In this case, are the impact figures from page 7 lines 18-22 perpetual, recurring, or one-time?
- b. If they are one-time, do the figures attempt to aggregate the estimated changes that occur over time?

RESPONSE:

The revenue losses discussed on page 7 would occur in a single year since that was the nature of the research design. For the purpose of my testimony the revenue loss would occur in the first full year after implementation.

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PR/USPS-T12-7. Please refer to page 21 lines 8-10 of your testimony, where you state that you replicated the approach used to estimate the volume and revenue impact from N2010-1. Please indicate if there are any methodological or technical differences used in this case, and specifically identify the differences.

RESPONSE:

There are some minor differences between the way we analyzed the volume, revenue, and contribution impacts in the Five-Day Delivery testimony compared to this case. Overall, we followed the same approach with the minor differences shown below.

National, Premier, and Preferred Account Tab

In the Five-Day Delivery testimony, we included more products, such as all “package” products. In the Network Rationalization testimony we included only Express Mail and Priority Mail while we aggregated First-Class Mail Flats and Parcels together with Single Piece First-Class Mail and Presort First-Class Mail.

Five Day Delivery

Single Piece FCM
Presort FCM
Single Piece FCM Flats
Presort FCM Flats
Single Piece FCM Parcels
Presort FCM Parcels
Regular Standard Mail
Non Profit Standard Mail
Regular Periodical Mail
Non Profit Periodical Mail
Express Mail
Priority Mail
Parcel Select
Parcel Post
Bound Printed Matter
Media Mail/Library Mail

Network Rationalization

Single Piece FCM
Presort FCM

Regular Standard Mail
Non Profit Standard Mail
Regular Periodical Mail
Non Profit Periodical Mail
Express Mail
Priority Mail

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Small Business Tab

In the Five-Day Delivery testimony we reported volumes for First-Class Mail, Priority Mail, Express Mail, First-Class Mail Flats, and First-Class Mail Parcels. In the Network Rationalization testimony we report volume for First-Class Mail, Priority Mail, and Express Mail while we aggregated First-Class Mail Flats and Parcels together with Single Piece First-Class Mail.

In addition, we used finer segments for Small Business in this docket. In the Five-Day Delivery testimony, we only included commercial establishments with one or more employees. In 2009, using the Equifax data, there were 12,509, 527 establishments with 1 or more employees. The 9,548,106 establishments with no employees (defined as “at-home” businesses) were analyzed as part of the Consumer segment.

In the Network Rationalization testimony, we included all commercial establishments. The establishments with no employees (6,988,036) and 1 employees (3,096, 757) were considered to be “at-home” businesses. The establishments with more than 1 employee (12,175,720) were considered to be small businesses.

Consumer Tab

In the Five-Day Delivery testimony we reported volumes for First-Class Mail, Priority Mail, Express Mail, First-Class Mail Flats, and First-Class Mail Parcels. In the Network Rationalization testimony we report volume for First-Class Mail,

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Priority Mail, and Express Mail while we aggregated First-Class Mail Flats and
Parcels together with Single Piece First-Class Mail.

In the Five-Day Delivery testimony we analyzed the data based on 114,600,000
households and the 9,548,106 establishments with no employees. In the
Network Rationalization testimony we analyzed the data based on 117,538,063
households.

Total Tab

In the Five-Day Delivery testimony, we included more products. In the Five-Day
Delivery testimony we included all “package” products. In the Network
Rationalization testimony we included a combined Express Mail and Priority Mail
category while we aggregated First-Class Mail Flats and Parcels together with
Single Piece First-Class Mail and Presort First-Class Mail.

Five Day Delivery

Single Piece FCM
Presort FCM
Single Piece FCM Flats
Presort FCM Flats
Single Piece FCM Parcels
Presort FCM Parcels
Regular Standard Mail
Non Profit Standard Mail
Regular Periodical Mail
Non Profit Periodical Mail
Express Mail
Priority Mail
Parcel Select
Parcel Post
Bound Printed Matter
Media Mail/Library Mail

Network Rationalization

Single Piece FCM
Presort FCM

Regular Standard Mail
Non Profit Standard Mail
Regular Periodical Mail
Non Profit Periodical Mail
Express Mail/Priority Mail